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PORTUGAL

The Portuguese Communist Party and some minor leftist groups have called off the political demonstration they had scheduled for Friday. Their action came in response to a request from the Armed Forces Movement that the three political demonstrations planned for that day not take place.

If the other major political party planning a demonstration--the Socialists--abides by the cancellation, the chance of violence over the weekend will be substantially reduced. The Communists, whose demonstration was scheduled to draw off support from the Socialist rally, which they expected to be a big success, will be gratified by the cancellation.

Minister Without Portfolio Vito Alves, speaking on television on behalf of the Armed Forces Movement yesterday, said that the demonstrations would interfere with the process of bringing democracy to Portugal and "should not take place." His announcement indicates that the Armed Forces Movement can still act as a body, even though seriously divided between moderates and radicals.

The government's concern over the rival demonstrations increased yesterday when the Maoist Reorganizing Movement of the Proletariat Party announced it planned to meet at the same location as the Socialists. The Socialists, determined to make their show of strength in spite of competition, changed locations to avoid conflict. The announced times and places of the three demonstrations, however, were so close that planned or spontaneous clashes were still possible.

Before the announcement by the Armed Forces Movement, the Socialist leader, Foreign Minister Soares, told Ambassador Carlucci that his party would go ahead with its demonstration, even if the government canceled it. The Socialists, nevertheless, may now back down.

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The Maoist group may not be as willing to back down. Press reports indicate that the Maoists are prepared to hold their demonstration in defiance of a government ban.

If the Maoists do not have the Socialists too demonstrate against, they may substitute a new cause--the ten-day NATO antisubmarine exercise that began yesterday in international waters near Lisbon. The Maoists have been joined in condemning the exercise by the Popular Socialist Front, a radical Catholic group that recently split from the Socialist Party.

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EGYPT-FRANCE

Egyptian President Sadat left France yesterday with the promise of sizable French arms sales and Paris' agreement to consider participating in a wide range of economic projects in Egypt.

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Sadat told a press conference that Paris agreed to provide Mirage F-1 aircraft. He did not divulge the number, saying only that the package consists of far fewer than the 120 planes mentioned earlier in the press. French sources have told the press that 50 planes are involved.

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Sadat did not mention any other types of arms in the new agreement--which is doubtless also being financed by Arab oil producers. He is known to have been seeking surface-to-air missiles, tanks, helicopters, and radar equipment.

While in Paris, Sadat made a much publicized tour of the plant that produces Crotale surface-to-air missiles and electronic equipment. Egypt's war production minister, General Badri, has stayed behind for further discussions with plant officials.

Sadat is surely pleased with the military agreement, particularly with the heavy publicity it received. The pointed reference in the communiqué that France agreed to sell arms to Egypt to help compensate for war losses was probably inserted at Sadat's request as a slap at the Soviets. Sadat has recently made much of Moscow's failure to provide Egypt with replacement equipment, and he has shown he can go elsewhere to obtain at least some of Egypt's military needs.

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Sadat probably hopes that the promise of a militarily stronger Egypt will buttress his negotiating position with Israel, though he did try at his press conference to avoid giving the impression that the French arms will impede the progress of talks. At the press conference, he repeatedly emphasized that delivery of the Mirages will take several years, and reminded his audience that Libyan Mirages stationed in Egypt during the war had not been used in combat. Sadat also reiterated that Egypt and Syria have no intention of starting a new war.

Although Sadat and President Giscard held extensive discussions on economic cooperation, few firm agreements appear to have been made. Sadat had said he intended to request a nuclear power station, but the communiqué referred to this only as one of many projects in which French participation was "reviewed." A high French official announced, while Sadat was in town, that France would not sell nuclear reactors unless guarantees "satisfying the international community" were provided. Agreement was reached on the construction of a conventional electric power plant and on a system for color television.

On Middle East peace issues, the communiqué called for "secure, recognized, and guaranteed borders" for all states in the area. This wording, inserted at Giscard's insistence, is a refinement on UN Resolution 242, which calls for secure and recognized borders. Giscard's use of the key phrase "guaranteed borders"--which he repeated several times before and during Sadat's visit--reaffirms France's desire to take part in settlement efforts.

In his press conference, Sadat said that he would welcome the stationing of French troops to guarantee the border in a final peace settlement, so long as they were positioned on both sides. Sadat said that "in a coming stage" France and all of Western Europe should play a role.

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GREECE

The Greek government apparently is not yet ready to discuss in detail the consequences of its decision to withdraw from NATO's integrated military command. Greece formally withdrew from the military command structure of NATO during the fighting in Cyprus last summer, but it has done little since then to implement that decision.

Athens informed NATO on December 4 that it was prepared then to discuss questions raised by its decision to withdraw. In a conversation on January 28 with the US ambassador in Athens, however, a high Foreign Ministry official noted the Greek government's desire not to cause unnecessary problems for NATO activities in Greece. In particular, Athens wants to ensure the continued operation of the NATO missile-training facility on the island of Crete. Athens, therefore, prefers that the status of the installation not be discussed at a NATO meeting in Brussels in early February. The official explained that the Greek government is still in the process of determining what kind of relationship to maintain with NATO and would therefore prefer not to take a position on the fate of specific NATO facilities in Greece at this time.

The Greek military establishment seems to favor the maintenance of as many ties to NATO as politically possible. While Prime Minister Karamanlis probably sympathizes with this position, he is also mindful of the popularity of the decision to withdraw from NATO's integrated military command.

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YUGOSLAVIA

Yugoslav sensitivity concerning its independence and nonalignment surfaced in a recent commentary that criticized the Austrian press.

On January 26, a Belgrade broadcast charged that an Austrian newspaper was guilty of fabrication and sensationalism in its report that the Soviets have a major military involvement in Yugoslavia. The newspaper reported that an airfield is being built for Soviet transport aircraft, that Soviet aid has been used in constructing underground shipyards and docks, and that a Soviet airborne unit is deployed near Belgrade.

To refute these charges, the Yugoslav commentary underlined Belgrade's nonalignment. It also reiterated the basic principle of an all-people's defense concept, saying that it "can be turned against anyone," including countries "either big or small, strong or weak, geographically near or distant."

While the broadcast reflects the present chill in Yugoslav-Austrian relations, it was in Russian and therefore apparently directed against the Soviet Union. The specific motive is unclear. It is possible that the broadcast was used to counter either existing or potential Soviet pressure for increased access to Yugoslav port facilities and any long-term Soviet designs on a post-Tito Yugoslavia.

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CHINA

The appointment of a new chief of staff and a new head of the army's political department strengthens party control over the armed forces. The appointees are both civilians, an unusual but not unprecedented move. The chief of staff has always been a professional soldier.

The new chief of staff, Teng Hsiao-ping, is the ranking vice premier and has been filling in for Premier Chou En-lai since he entered the hospital last year. Teng had a distinguished military career during the civil war, but has been a party and government administrator since then. Teng has a well-earned reputation as a disciplinarian.

//Chang Chun-chiao, the new head of the General Political Department, rose to the top party post in Shanghai as a result of the Cultural Revolution. [REDACTED]

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[REDACTED] Chang has been the first political commissar of the Nanking Military Region since 1967, but he does not have an extensive military background. [REDACTED]

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Both Teng and Chang are members of the Politburo standing committee, and Teng was elevated to the rank of party vice chairman at a party plenum earlier this month. Their unusually high rank lends emphasis to the party's desire to assert control over the military establishment. Furthermore, Teng had been reappointed to the Politburo and named a vice chairman of the party's military commission in late December 1973 in conjunction with an earlier move to undercut military political power--the rotation of the military region commanders.

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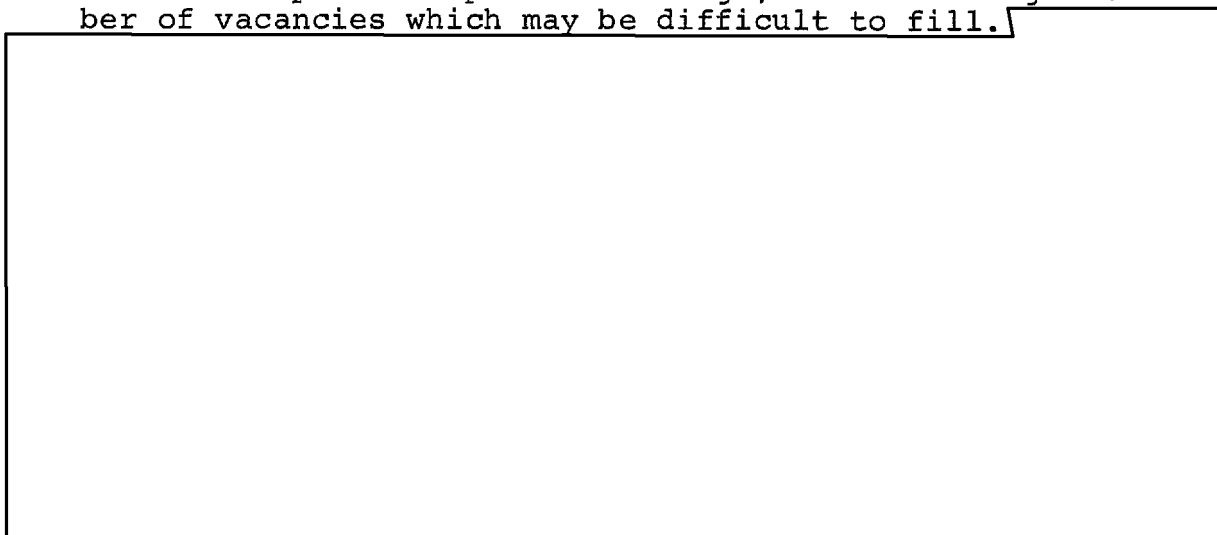


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Teng will probably enlarge his role in military policy-making, but it is not yet clear whether he will take a firm handle on day-to-day military affairs. His broad government duties would seem to demand much of his time, unless Premier Chou's health permits him to resume a more active role in government affairs. It is also possible that Teng will rely heavily on his eight deputy chiefs of staff, several of whom possess the necessary experience to fill the job themselves.

Chang Chun-chiao is now one of the handful of leaders who hold top party, government, and army posts. He seems to have been acting as party secretary general, but his new military duties do not conflict with his performance of this important party function. The concentration of power tends to increase central control, but it could create problems over the longer term if the incumbents depart the political stage, thus creating a number of vacancies which may be difficult to fill.

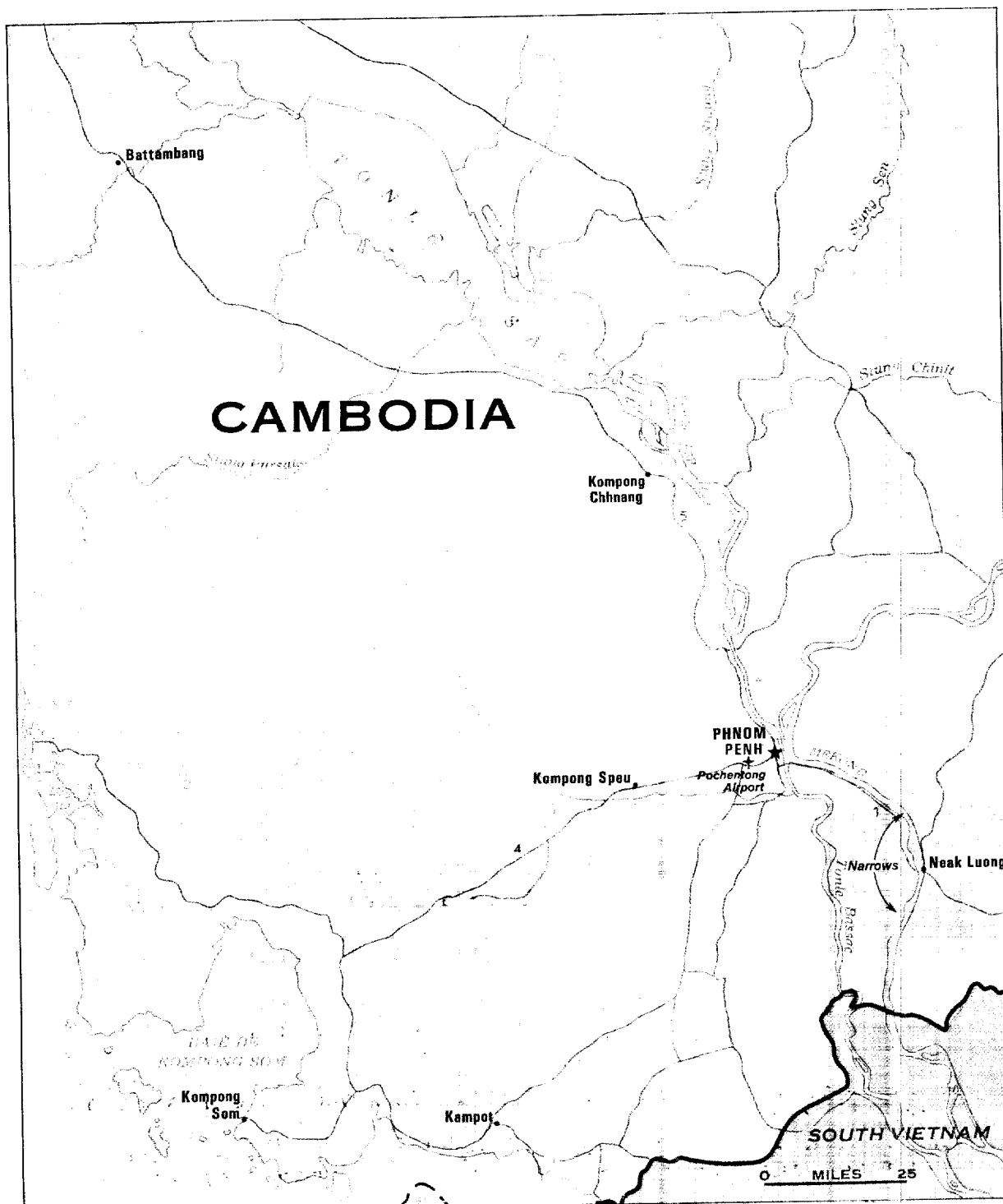
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CAMBODIA

The third and largest Mekong River convoy to attempt the trip from South Vietnam to Phnom Penh during the past week arrived in the capital early this morning.

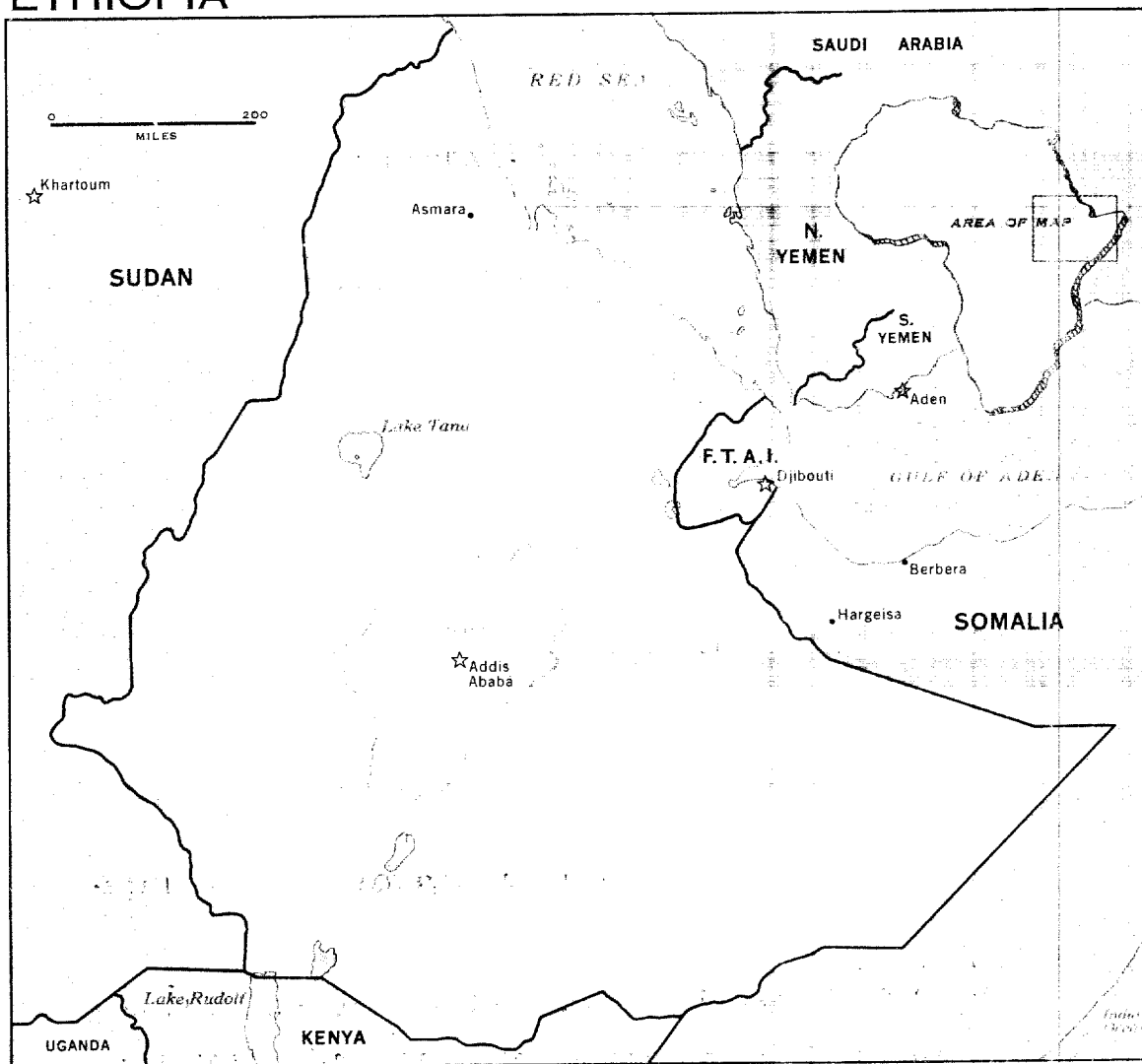
When the convoy left South Vietnam, it consisted of 11 cargo ships, barges, and tankers carrying rice, ammunition, and petroleum products. One of the four tankers was sunk and another set afire and beached after receiving heavy communist shore fire in the vicinity of the southern narrows about 12 miles north of the South Vietnamese border. A third ship carrying rice ran aground just south of Neak Luong. The fate of the crew on the sunken tanker is not yet known, but most of the other crew members aboard the other two ships were reportedly rescued.

Operations are now under way to recover the beached ships. Two additional ships developed mechanical problems and are being repaired at Neak Luong.

Other combat activity is still concentrated north and west of the capital. Government forces are trying to dislodge Communist gunners from rocket-launching positions northwest of Pochentong airfield, but unfavorable terrain and stiff resistance is preventing any significant progress. Communist forces are maintaining pressure against the 7th Division northwest of the capital and have isolated the division headquarters.

Elsewhere, the communists have launched attacks against government defenders at the provincial capital of Kampot, in the far southwest. Although the insurgents forced government troops to abandon some positions over the weekend, the garrison has been reinforced and the situation has since been stabilized.

ETHIOPIA



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ETHIOPIA

Renewed fighting between government forces and insurgents in Eritrea Province appears to be almost unavoidable. The ruling military council is also facing increasing opposition to its radical policies from a variety of Ethiopian groups.

Insurgent leaders reportedly have broken off talks with local Eritrean notables, who have been acting as go-betweens, on the possibility of holding direct contacts with the council. The insurgents appear to believe they can achieve their goal of independence by military action.

Yesterday, the council announced in Addis Ababa that it had reached the end of the line in its policy of "restraint" and that it is ready to use force against the rebels. During the past two weeks, the council has made extensive preparations for renewed hostilities. It has established a joint army-police command in Asmara, the provincial capital, to coordinate all military activities.

The council will probably refrain from initiating hostilities until the return of a delegation currently touring Arab capitals to explain the government's policy toward the predominantly Muslim insurgents. The delegation is expected to return within a week.

Opposition groups in other parts of Ethiopia are becoming increasingly active. The critics of the ruling military government represent a broad-based collection of Ethiopians with different ethnic, economic, and regional interests, but each views the council as a threat to their position and traditions.

Leaders of these groups believe the council's policies, including its adoption of socialism, nationalization of businesses, and intention to adopt land reform, are too radical for Ethiopia. Some believe the council's

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actions presage a turn to communism. They are concerned that these policies could lead to civil war and the disintegration of Ethiopia. Most of them still appear to be in the stage of getting organized and broadening their support; [REDACTED]

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Most of these groups pose no direct threat to the council and lack the ability to stage a coup at this time. Some of them are capable, however, of harassing the council by organizing insurgencies in the provinces. Dissident activity, already under way in the northern provinces, has now been reported in Shoa Province, where Addis Ababa is located. Armed bands have formed in northern Shoa, in reaction to the council's announced intention to implement land reform. Last weekend, 12 soldiers reportedly were killed in a clash with civilians within 75 miles of the capital.

Any attempt to oust the council in the near future would have to come from within the military. Military opposition is widespread, but it is mostly unfocused and without direction. Dissident officers could decide to act, however, if provincial unrest continues to increase, or if the council makes a serious misstep. [REDACTED]

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ISRAEL

The cabinet's basically conservative view of Middle East peace issues was underscored by the resignation yesterday of Information Minister Yariv and by Defense Minister Peres' recent hard-line public statements on an interim settlement with Egypt.

Yariv's resignation is an outgrowth of long-simmering frustration over the secondary status accorded his ministry and over his limited ability to influence government policy. One major area of policy difference has been the government's opposition to negotiations with the Palestine Liberation Organization.

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Rabin may hold off naming a replacement pending an assessment of factional requirements for his coalition cabinet. Yariv belongs to the dominant Mapai faction of Rabin's Labor Party, and his departure should not jeopardize the coalition. The Prime Minister may also study the need for a separate information ministry. Yariv, upset over the lack of political and budgetary support, repeated an earlier recommendation in his resignation that the ministry be abolished.

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Defense Minister Peres, meanwhile, told an Israeli television audience on Tuesday that there is room for an Israeli withdrawal of 20 to 30 miles in the Sinai, in return for political concessions by Cairo. An Israeli pullback, he said however, would not include the Gidi and Mitla passes, nor the Abu Rudays oil fields demanded by the Egyptians.

Peres' hard-line definition of the Israeli negotiating position is reminiscent of the line first presented by Foreign Minister Allon during talks in Washington last December; the Egyptians found Allon's proposal totally unacceptable. Peres' statement, however, is not Tel Aviv's final word. The full cabinet reportedly will discuss Israel's Sinai negotiating position next week, most likely at Sunday's regularly scheduled session.

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ITALY

Representatives of Italy's major labor unions and employers over the weekend reached agreement on the most contentious issue dividing them in recent negotiations--the question of wage increases linked to the cost-of-living index. By yielding to most of the unions' major demands, the employers paid a high price for a tenuous peace with labor.

The unions received substantial increases in the cost-of-living allowance, a lump-sum payment to each worker for past losses due to inflation, and a hike in the family allowance. Settlement of the wage escalation dispute followed an agreement last week on increased unemployment compensation. Changes in the wage-supplement fund and increased employer contributions to it will enable those on reduced work weeks to receive 100 percent of their salaries. Workers who have been laid off will now receive compensation amounting to 93 percent of their incomes for up to a year; they currently get 66 percent for up to three months on a renewable basis.

Another union demand--improved pension payments for the lowest paid individuals--was approved several weeks ago.

Although the government has given its blessing to the latter two agreements, the accord on cost-of-living increases may cause concern among economic officials. Treasury Minister Colombo, for example, has warned that the upward revision of the cost-of-living payments system could negate the effects of the five-month-old austerity program. Deputy Prime Minister La Malfa, moreover, has traditionally opposed such concessions to labor. He has frequently clashed with the Socialists, who support the government in Parliament, over such issues.

The agreements will add billions of dollars to industry's costs at a time when demand is flaccid because of high prices and job uncertainty. If employers are

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forced to reduce profits, instead of raising prices, to pay for increased labor costs, funds for capital expansion could be sharply curtailed, and investment could drop more than the 4.5 percent we have been expecting.

The three agreements could jeopardize the government's goal of holding total wage costs this year to 16 percent. The package will add at least 7 percent to the average working man's pay. In spite of these increased benefits, there is no evidence that the unions have promised to moderate future demands. More than half of the industrial labor force's contracts will be up for renewal this year, including those of the most militant unions.

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JAPAN

Industrial production in December was 3.5 percent below November, matching the record decline set in August. The figure is down about 15 percent from Japan's highest monthly output, which was achieved in 1973. The overall drop in manufacturing output last year was the first in 20 years.

The cuts are the result of a sharp slump in domestic demand, which has caused inventories of finished goods to soar. Attempts to adjust inventories by slowing production have failed, as sales have fallen even faster.

The Ministry of International Trade and Industry is studying ways to cope with the deepening recession. In the short term, such measures as government loans and easier credit will help firms avoid bankruptcy, but they are unlikely to turn the economy around. With stocks now up about 50 percent from levels last year, further production declines, accompanied by increased unemployment, are almost a certainty.

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FOR THE RECORD

India: An Indian Space Research Organization official has announced in New Delhi that India's first scientific satellite will be orbited in April. The satellite will utilize a Soviet launch vehicle and will probably be launched from the Kapustin Yar Missile Test Center.

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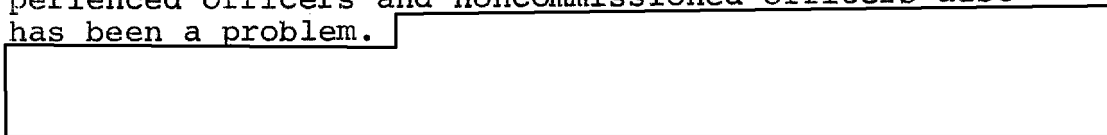
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Philippines: The size of the Philippine armed forces was almost doubled in the past year to give it a better capability to combat the Muslim insurgency. To convert this increased strength--which now totals 105,000 men--into an effectively integrated, well-trained fighting force remains an elusive and long-range goal. The continuing insurgency, with its requirements for widely dispersed forces, has prevented the development of large unit capabilities and has produced serious logistic and command-and-control problems. A severe shortage of experienced officers and noncommissioned officers also has been a problem.

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Denmark: Denmark's Queen Margrethe yesterday appointed Karl Skytte, speaker of Parliament and a member of the middle-of-the-road Radical Liberal Party, to attempt to form a new government. Both caretaker Prime Minister Hartling and Social Democratic leader Jorgensen recommended Skytte. Because none of the Danish political parties wants another election right now, Skytte appears to have a better than even chance of putting a new government together; he would not necessarily head it.

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